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Expertise as a Driving Force of Policy-Making: the Case of Pension Reform in Kazakhstan

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Table of Contents

List of Tables and Glossary of Abbreviations	iii
Executive Summary	iv
I. Introduction	1
II. Pension reform in Kazakhstan: Role of Expertise in the Policy Process	3
2.1 Background of the Reform	3
2.2 Role of expertise in the reform deliberation and public debates	5
2.2.1 Policy Actors and the Role of Expert Capacity in the Reform Deliberation	5
2.2.2 Communicating vs. Dialogue	7
2.3 Current Status of the Reform and Policy Dialogue	9
2.4 Key Lessons Learned	13
III. Conclusions and Policy Recommendations	17
References	20
Endnotes	22
Appendices	

Tables

Table 1. Selected Reform Measures

9-10

Glossary of Abbreviations

(S)AF	– Accumulation Funds, State and Non-state
ADB	– Asian Development Bank
CAR	– Central Asian Region
CIS	– Commonwealth of Independent States
CSO	– civil society organization
DB	– defined benefit
DC	– defined contributions
FSU	– Former Soviet Union (countries)
MLSP	– Ministry of Labor and Social Protection
MOF	– Ministry of Finance
NBK	– National Bank of Kazakhstan
NGO	– non-governmental organization

NSC	– National Securities Commission
PAYG	– pay-as-you-go
USAID	– United States Agency for International Development
PRAL	– Pension Reform Adjustment Loan
SAF	– State Accumulation Fund
SPPC	– State Pension Payment Center
TA	– technical assistance

Executive Summary

The role of research in policy processes has increased significantly in recent decades in almost every country and in international organizations. In a milieu of increasing complexity, especially in the socio-economic and political contexts, knowledge becomes a vital factor affecting the ability of policy actors to influence the political agenda and the shape of policy outcomes. The degree of researchers' and research institutes' participation is posited here as a significant factor that contributes to the openness of the policy process and efficacy of policy itself. The objective of this study is to investigate the role of research in policy decision-making processes in Kazakhstan.

Kazakhstan as a part of one of the most remote areas of the Soviet Union, has suffered from a severe scarcity of research-related resources during the years of transition. Despite the lack of local experience with a market economy or democracy building, the Kazakhstani government pledged to conduct reforms based on three pillars: creation of a market economy, democratization of the political process and institutions, and integration into the global economy. In the absence of indigenous knowledge the concepts and methods used in the reforms came from external sources. During the transition period (since 1991) the World Bank, USAID, EU, and ADB supported Kazakhstani reforms with a high volume of knowledge and expertise.

Today it appears that international and foreign organizations have to change their role as a source of policy ideas, and the question of local ownership of reforms has emerged as a very real issue, as it does in most other transition and developing countries. Using the case of pension reform this paper address the questions speaking to the extent to which transitions are sustainable and supported by indigenous policy-making expertise sufficient to provide the administrative capacity to support

democratic governance. Also, this research intends to shed more light on how, why and what kinds of expertise policy actors have been using in policy-making during the years of reform. Finally, it this study investigates how research affected, if at all, the policy dialogue and public debates.

I. Introduction

The role of research in policy processes has increased significantly in recent decades in almost every country and in international organizations. In the United States and countries of Western Europe, research organizations play a vital role in the policy dialogue, providing all parties (partisan and interest groups, governmental agencies and parliament) with ideas and policy relevant analysis. A vast array of so-called think tanksⁱ - from the very famous and influential such as the Brookings Institution, RAND Corporation, American Enterprise Institute, the Heritage Foundation (USA), Royal Institute for International Affairs (UK), Center for Development Research (Denmark), Kiel Institute for World Economies (Germany), to small NGOs working in particular areas of expertise – manifest the growing role of knowledge in policy-making process in modern western democracies.

Since the 1970s, the number and diversity of research policy centers (institutes) in developing and transition countries has also grown. Latin America, Africa and Asia have been witnessing the brisk growth of new types of institutions that have introduced important knowledge and know-how, assisting their governments in market and social reforms. In Eastern Europe and the former Soviet Union, non-governmental research organizations close to the model of western think tanks appeared in the late 1980s and early 1990s after the collapse of the socialist system. Many of the institutes established by western-oriented intellectuals and technocrats have played prominent roles in the transition to the market economies in these countries.

In FSU countries, the situation varies from country to country and from region to region. The extent of research activities within post-Soviet space appears to depend heavily on the prior allocation of intellectual and knowledge resources. The vast majority of academic resources of the Soviet Union were rooted and concentrated in the Center – in the main cities of Russian Federationⁱⁱ and in the most developed European territories of the former Soviet Union – Ukraine and Belarus. The concentration of knowledge and power in this region provided the basis for a comparatively successful transformation of many governmental research organizations into private ones or the establishment of new research institutes by prominent experts and intellectuals in particular areas.

At the same time the other newly independent states faced a lack of local research capacity and knowledge resources. The Central Asian region (CAR), one of the most remote areas of the Soviet Union, has suffered from a severe scarcity of research-related resources during the years of transition. Large numbers of scholars left the region to Western countries or Russia due to a range of economic and political reasons. Education and the system of knowledge production have undergone a painful transformation and retrenchment. The resources from state budgets

available for research shrank dramatically, while the market (or non-state actors) failed to provide any significant demand for or supply of research.

Following this pattern, the governments of the CAR pursuing economic and political reforms faced a range of challenges. Despite the lack of local experience with a market economy or democracy building, almost all of them pledged to conduct reforms based on three pillars: creation of a market economy, democratization of the political process and institutions, and integration into the global economy. Where did the concepts and methods used in the reforms come from in the absence of indigenous knowledge? The answer is similar throughout the entire developing world: international expertise, provided by multilateral and foreign agencies such as the World Bank, IMF, the Asian Development Bank, the US Agency for International Development, various agencies of the European Union, etc.

During the transition years, Kazakhstan has come to be known as a model student in following the recommendations of external experts regarding market reforms. Not surprisingly, these experts note that the Kazakhstani government has demonstrated relatively good abilities in transition management as evidenced by having achieved macroeconomic stability, establishing one of the best financial systems in the CIS, and creating a favorable climate to attract foreign investments.ⁱⁱⁱ It is the first post-Soviet country to launch an ambitious and radical pension reform program.

The evidence shows that the Kazakhstani government has advanced its policy agenda primarily in those spheres where it acquired significant foreign or international technical assistance, as in the case of pension reform. The essential support provided by multilateral agencies was expertise. The World Bank, USAID, EU, and ADB supported reforms with a high volume of knowledge and expertise. Today it appears that international and foreign organizations have to change their role as a source of policy ideas, and the question of local ownership of reforms has emerged as a very real issue, as it does in most other transition and developing countries. Leaving aside the issue of the relevance or success of the reforms for the moment, at the present stage it might be useful to ask: Who will continue to push the reform agenda ahead? With the ramping-down or phasing-out of international technical assistance and expertise, who will produce the knowledge and ideas for policy-making in this country in the future? These are the critical questions that speak to the extent to which transitions are sustainable and supported by indigenous policy-making expertise sufficient to provide the administrative capacity to support democratic governance.

II. Pension reform in Kazakhstan: Role of Expertise in the Policy Process

2.1 Background of the reform

The term “pension reform” denotes an entire range of political, economical, and societal issues concerning income distribution, generational equality, social policy-making, financial market regulations, poverty alleviation and so forth. This mixture of various concerns arising within the processes involved in generating and adopting pension reform engages a wide variety of political actors and conflicting interests.

In Kazakhstan, the failure of the Soviet PAYG system led to mass protests by pensioners calling for extensive political and economical measures. From 1995 to 1997, like many other post-Communist countries, Kazakhstan experienced a severe pension arrears crisis (about 5 months of pension payments in 1996). As in other parts of the former Eastern Bloc, fewer workers were paying pension contributions to support growing numbers of retirees. In Kazakhstan, the system dependency ratio was about 0.56, i.e., only 1.8 contributors paid for one pensioner. By comparison, in France, the ratio is five workers to one pensioner.

In response to this pressure, the Kazakhstani government agreed to urgent and radical pension reform, accompanied by an effort to pay off all existing pension arrears. The Pension Law, passed by Parliament in July 1997, entered into effect on 1 January 1998, providing the basis for the replacement of the PAYG system with a new pension system based on individual investment accounts to be maintained either with the newly established State Accumulation Fund (SAF) or with nonstate (privately owned) pension funds (NSAF). The Soviet PAYG system existing at the time had been designed for in the conditions of a planned economy characterized by full employment, insignificant informal economic activity, a flat wage distribution, and so on. Dramatic changes in the political and economic situation necessitated the reformation of the pension system as well.

At present, two systems are valid in Kazakhstan. An old state-supported PAYG pension system will remain in force for pensioners who contributed to the system until 1998, but newcomers cannot enter it. Workers who had accrued benefits under the old system retained their entitlements. Their pensions will be paid in part from the old system and in part from the new system, until the old system has been fully phased out. The new pension system will completely replace the old one by 2045-2050.

The basic scheme of the new Kazakhstani pension system is based on the concept introduced by the World Bank in its volume, *Averting the Old Age Crisis* (1994), which recommends a

combination of pay-as-you-go and funded pension systems. According to WB, a multi-pillar system should include following elements:

- Pillar 1 - a mandatory pay-as-you-go public pension system designed to provide an income floor for all elderly persons;
- Pillar 2 - a mandatory funded and privately managed pension system--one whose current reserves are equal to or greater than the present value of all future pension payment liabilities, based on personal accounts (the Latin American approach) or occupational plans (the OECD approach);
- Pillar 3 - a voluntary system (also funded and privately managed), with strong government regulation, to provide for additional savings and insurance.

In the new Kazakhstani pension scheme, the Pillar 1 (a mandatory pay-as-you-go public pension system) has been eliminated, although other post-Communist countries that reformed their pension systems at the same time preferred more cautious approaches (Andrews, 2001). For instance, in Hungary, Poland, and Latvia the state continues to sustain the publicly funded system simultaneously with privately funded components. The newly adopted Kazakhstani pension system – fully funded, defined contribution accounts, relies on the second Pillar. Kazakhstan adopted a system that relies completely on the FF/DC component.

The institutional structure of the system consists of three major components: pension funds, pension asset management companies, and custodian banks. By January 1, 2003, 15 private funds (NSAFs) and one state accumulation fund (SAF) were operating in Kazakhstan. Thirteen of the NSAFs are open and two are corporate ones. NASFs attract contributors and engage pension assets management companies and custodians. The market is represented by 9 pension asset management companies (AMCs), which decide where assets should be invested. They also carry out regular re-evaluation of assets. Each fund keeps the accumulated assets in one authorized bank custodian that accounts for and reports on all investment transactions, portfolio allocation and investments return. Custodian banks accept deposits and make pension payments. *The basic three-tier structure was instituted to provide for a clear separation of accounts and responsibilities so that a system of checks and balances would thwart any fraud and abuse).* A corresponding department of the National Bank controls every component of the «triangle».^{iv} Also, in order to calculate and pay PAYG pensions, maintain contribution records, and route funds to the accounts of SAF and private pension funds, the State Pension Payment Center (SPPC) was established in 1997.

2.2 Role of expertise in the reform deliberation and public debates

2.2.1 Policy actors and the role of their expert capacity in the reform deliberation

Governmental Working Group

Officially the design of the pension reform program began in November 1996 when President Nursultan Nazarbaev formed a governmental working group (WG) formally consisting of the Prime Minister, the Deputy Prime Minister, the Minister of Finance, the Chairman of the National Bank, the Minister of Labor and Social Protection, the head of the National Securities Commission, two representatives of the private sector, and two members of parliament. The governmental working group was a major designer and executor of the reform and also served as a main veto actor. It was the only proficient local proposal actor that enjoyed significant technical support from the World Bank, ADB, and USAID “providing both policy ideas and direct technical assistance” (Orenstein, 2000, 24).

While the composition of the working group represented both financial and social security sectors, the discourse was led by the financial sub-group – the National Bank of RK, Ministry of Finance, and technocrats hired by WB and USAID. The Ministry of Finance was a key partner for the aid agencies, yet the Ministry of Labor and Social Protection (MLSP) was relegated to the position of “a background participant”. Even in 2000, two years after the launching of the reform MLSP suffered from the shortage of research and analytical capacity. According to the interviews with executives from MSLP the situation remains unchanged.

Parliament

Formally Parliament is one of the most important institutional veto actors. Despite this, however, it did not play a significant role in the development of the reform program’s conceptual design and evolution. As the evidence shows, Parliament had neither proposal nor veto power and did not participate effectively in the development of pension reform. At that point, Parliament lacked the requisite technical and expert capacity to analyze the issue and suggest alternatives. All the Parliamentarians practically could and did do was to provide “an important deliberative forum” (Orenstein, 2000, 27).

The political cost of any delay in the reform was extremely high during that period. The pensions arrears crisis topped the domestic political agenda. Coverage of pension arrears was one of the crucial political conditions of the reform. For this purpose the government received a USD 200 million loan from the WB^v, and pushed hard to convince Parliament members to vote for the governmental concept of the reform. No fundamentally different concepts were proposed by Parliament to compete with the government’s proposal.

Civil Society Groups

Although the Government submitted the reform program for debate, the nascent Kazakhstani civil society was not capable of participating in the process in a meaningful way. Orenstein argues that there were no real partisan or civil society vetoes or proposal actors, and the interests groups that might have been drawn into the process in this particular case included the Pensioners Movement and the trade unions. However, the Pensioners Movement represents only the interests of current pensioners, and logically they held little interest in participating in the design of a new pension scheme from which they hardly stood to benefit. The main issues that topped their agenda were pension arrears, current benefit adequacy, and raising of retirement age. The trade unions' representation capacity had narrowed dramatically from 1993-1996 in the context of mass privatization, the fleeing of the labor force into the informal sector, and mass unemployment caused by the bankruptcy of many large enterprises that had been the hallmark of the planned economy. Consequently, trade unions (for example, the Confederation of Independent Trade Unions) participated in the process to some degree, but they could not serve as a meaningful player in the design of the reform program. The evidence shows that there were no other groups capable of entering the policy dialogue as proposal actors.^{vi} The key stakeholders in the new scheme – the contributors (customers) - were not represented in the policy dialogue at all.

International Organizations

The technical assistance provided by international multilateral agencies as such as WB, ADB, IBRD, the Governments of Japan and the United States (through USAID) was an important factor at all stages of the reform process, from design to monitoring and evaluation. The basic framework for pension reform in Kazakhstan was derived from the World Bank's policy ideas even without direct technical assistance from the Bank at the early stages. While experts of the WB joined the working group when the design of the reform was already in progress, both the expertise and technical support of international organizations (WB and USAID) had already strengthened the Government's capacity to design and implement the reform. On the other hand, the tendency for the government to cooperate closely only with international financial institutions like the World Bank and the Asian Development Bank led to the domination of a technocratic vision of the concept of the reform. This occurred despite the fact that other organizations such as the International Labor Organization also possess considerable experience and expertise in dealing with pension issues as an advocate of PAYG (Appendix 1). This situation is not unique and can be considered a fragment of the global tendency for international financial organizations to enlarge their role in the diffusion of policies internationally,

encouraging specific types of policy changes (privatization) through financial and technical assistance.

2.2.2 Communicating vs. Dialogue

As the available information shows there was no real policy dialogue at the first stage of Kazakhstani pension reform. Dialogue requires at least three necessary conditions: i) interested parties occupying distinct positions; ii) their willingness and ability to articulate and promote their positions with a certain degree of proficiency (expert capacity); and iii) an institutional and political framework for the dialogue. In the case of the pension reform, none of the aforementioned circumstances was fully present.

In reality, at the initial stage of the reform process, only two actors fulfill their role on the pension policy scene: the government (as a policy designer and decision-making center) and international aid agencies (as a source of technical support and policy ideas for the decision-making). Both meet the requirements to execute their role as actors in the policy dialogue effectively – they possess the interest, ability, and proficiency in designing and promoting reform proposals. Other actors – Parliament, political parties, trade unions, and civil society groups – did not demonstrate sufficient proficiency to participate equally in the dialogue as in the process of interactive multilateral communication.

Thus, in a situation where it was not a need to develop a multiparty dialogue, the latter was replaced by the attempts to communicate the reform through public information/education campaigns. The designers of the reform understood that the success of the program depended “not only on the creation of its components – laws and regulations; administrative and regulatory bodies; market actors, such as private pension funds and assets managers; administrative and regulatory procedures; and infrastructure (computer networks, databases, and so forth) – but also on ability of the Government to explain and justify the reform to a public that had lived most of its life under a system of central economic planning” (ADB, PPA: KAZ 31091, September 2003, v).

There is a range of assessments of how and what the Government has done in communicating the pension reform project. The fact is that with the assistance of ADB, WB, USAID, and IBRD, which together provided about USD 2 million for public information and media campaign (according to the reports of WB and ADB) the Government realized a program that included surveys, public information through TV and leaflets, seminars for the press, trade unions, employer organizations, and government officials throughout the country. In addition some foreign non-governmental organizations were involved in the campaign to a certain degree. For

instance, in 2000-2001 CARANA Corporation (USA) received a grant from WB for the implementation of a pension reform public education program with a focus on the promotion of private pension funds. The CARANA's program included a media information campaign, with special emphasis on the self-employed and rural sectors. Its communications strategy was focused on increasing participation by building public confidence, based on a better understanding of how the pension system works and how individual contributors could best manage their own participation. CARANA also trained journalists and local officials to ensure ongoing public education after project completion.^{vii} (CARANA's report on this program is not available).

However, there is no information, which shows that the local civil society actors were somehow involved in the design, implementation or monitoring of public education campaigns, conducted by the government and foreign organizations. Also there is no any available data on the assessment of the effectiveness of those public information campaigns, conducted either by government or foreign organizations, except a short comment in the ADB's report saying: *As the public's awareness and understanding of the new pension system has grown, in response to public information activities and direct marketing by the private pension funds, participation in these funds has increased from less than 20% in 1998 to almost 75% in 2003. Two surveys, one conducted at the beginning and one conducted at the conclusion of TA 3082-KAZ: Public Information and Education in Support of Pension Reform, indicated that public awareness and understanding of the pension system had increased. The degree to which this increase is attributable to TA 3082-KAZ is hard to assess, but it clearly played a significant role.* (ADB, PPA: KAZ 31091, September 2003, 13).

2.2.3 Current status of the reform and policy dialogue

Kazakhstan's pension reform was, at the time, the largest and the most radical attempted in any post-Communist country (ADB, WB). The reform was complex in design and challenging to implement when juxtaposed against nascent capital markets, the weakness of institutional infrastructure and lack of governance background. The scope of the reform conducted in Kazakhstan is impressive. Its implementation necessitated the development of new laws and promulgating regulations and entirely new institutions. The administration of the new system required the issuance of social identification codes to millions people, as well as computerization, and the development of a new administrative system (ADB, PPA: KAZ 31091, September 2003, iv-v).

In Table 1, there is a list of some standard measures proposed in the literature on pension reform. From this table we see that the range of measures, that to some degree were implemented in Kazakhstan during seven years of the reform (marked bold), does not include such issues as equity of pension levels, new role for the public pillar, rules (and markets) for annuities and withdrawal of funds. The main focus of the reform was on the development of capital markets, infrastructure, and institutions, rather than the enlargement of social protection: The reformers were focused on *input* aspects of the system, rather the *output* ones, as nobody answered yet the questions - How and how much will contributors receive when they retire, and what will happen with those people who are not enrolled to the funded system and with those, who will not have a significant amount of pension assets?

Table1. Selected Reform Measures

I. Restructuring the Public PAYG System
<p>1. Raise the retirement age</p> <p>2. Eliminate preferential treatment for specific occupations</p> <p>3. Tighten disability and early retirement requirement</p> <p>5. Lower targeted replacement rate to more realistic levels</p> <p>6. Reduce inequality of pension levels</p> <p>7. Fight evasion</p> <p>8. Improve administrative capacity</p>
II. Establish A Fully Funded (FF) System
<p>A. Establish a System of Individual Accounts</p> <p>1. Establish the role for public pillar (flat-rate, means-tested, etc.?)</p> <p>2. Create mandatory or voluntary accounts</p> <p>3. Set contribution rates</p> <p>4. Institute life and disability insurance</p> <p>5. Establish rules (and markets) for annuities and withdrawal of funds</p>
B. Establish a Regulatory Framework

- 1. Create or reorganize regulatory agencies (new or existing agency)**
- 2. Establish competent supervision and regulation powers**
- 3. Establish entry/exit requirements for pension funds**
- 4. Solvency rules**
- 5. Investment rules**
- 6. Establish reporting and disclosure rules**
- 7. Establish state guarantees (protection against insolvency)**

C. Transition Plan and Actuarial Model to Estimate Costs

- 1. Compensation for vested pension rights (recognition bonds, other compensation)**
- 2. Periodic review of regulations for insurance plans, pensions, training for staff**
- 3. Train regulators, fund managers, actuaries, accountants, and auditors**
- 4. Public relations campaign**

Source: adapted from Kay, S., 2001

According to the official statistic data by January 2004, new pension scheme covered 6 million people, representing approximately 80 percent of the economically active population. However, according to other sources less than 50 percent of contributors make payments on a regular basis and in the full amount. The managers of NSAF report, that a large number of contributors have more than one pension account. It means that the number of pension accounts announced in the official reports does not reflect a real number of people enrolled in the new pension system. At the same time, the other part of the population - self-employed workers in the informal sector or/and unemployed people – are still in the socio-economic shadows. Theoretically, at least some of them should benefit from the Pillar 3 - a voluntary system. But in practice, less than 0.5% of personal pension accounts (27 000) were opened at pension funds on a voluntary basis by January 2004 (*Report of the National Bank of RK*).

The World Bank's preliminary actuarial calculations, made in 2003, show that in 40 years more than 35 percent of the retirement age population is expected to have no significant benefit from the funded system (Kazakhstan Pension Policy Note – Concept Note, 2003, 2). Furthermore, there is still no a scheme promising to those segments of population who not covered by FPS a possibility to have any benefits in their retirement period. Not surprisingly, 100 percent of high-

positioned managers of pension funds (*according to the results of an expert poll conducted by the Kazakhstani Association of Pension Funds Contributors in February 2004*) assess the level of population's reliance to pension funds and to the new pension system as "*close to low*". The same 100 percent assesses the level of population's awareness on funded pension system as "*the population is not informed enough*".

A survey conducted in Almaty (the biggest city in Kazakhstan) in November 2003 of a randomly drawn sample of the working population^{viii} illustrates an astonishingly low level of workers' awareness about the features of the new pension system. 92 percent of the sample *do not know* or *do not know enough* to manage their pension assets. No one monitors the activity of his/her (S/N)AF on regular basis, more than 40 percent *do not know to which (S/N)AF they make their transfers*. 80 percent of the sample *think that their pension assets will not allow them to have adequate benefits in retirement period*. 24 of 25 respondents *do not know* or have difficulties in answering *how much and in what way they will receive benefits from their pension accounts*. 36 percent do not trust the new system, 56 percent have not made a decision yet whether to trust it or not, although 56 percent say that they *worry about their income in old age very often*.

The arrears in transfers to pension accounts have become quite a sensitive problem both for contributors as well as for (N)SAFs. An array of employers do not follow the compulsory regime of transfers of employees' contributions to pension accounts. According to the Ministry of Finance, by 1 October, 2003, the total employers' debt of mandatory pension transfers is about USD 131 million (KZT 19.3 billion^{ix}). According to the poll conducted by COMCON agency that covered 1000 respondents around the country (3/4 of the sample are (S)AF contributors) 68 per cent of the sample say that they did not choose their (S)AF - employers made the choice; 11 percent have difficulties answering this question, and only 21 per cent of the sample say that they chose their (S)AF by themselves^x, what in many cases implies a direct violation of the Pension Law and other regulations.

Thus, today it becomes obvious that a range of inadequacies and adjustments to the pension system would require a second phase of reform. The government stands against the need to conduct assessment of the first stage of the reform and development a conceptual framework for further strategies. However, even after seven years of the reform Kazakhstani government calls for external experts to provide necessitate analyses. In 2003, expert groups of WB and ADB launched the series of analyses which cover the entire range of problems in the new pension system: governance of the system, benefit adequacy, coverage, and distributional concerns,

absorption capacity of the capital markets, etc. (ADB, PPA: KAZ 31091, September 2003; WB, Kazakhstan Pension Policy Note – Concept Note, 2003).

In interviews, executives and local researchers mentioned that the assistance of multilateral agencies was very helpful during the initial stages of the reform, but eventually it became clear that outside expertise can be used just to a certain degree and cannot not replace domestic capacity. Nevertheless, most of the recent reports on pension reform are still prepared by foreign experts, even though they are based and put together from the data gathered by governmental agencies (MSLP, NBK, and MOF). This fact clearly demonstrates that Kazakhstani government yet does not have a sufficient in-house research and expert capacity to sustain the reform without an outside support. Also, we see that the other domestic actors – civil society organizations, political parties, stakeholders, and researchers - are not involved in this discourse even at the second stage of the reform. Furthermore, as it seen their capacity to participate in the dialogue on the perspectives of pension reform has not evolved during past seven years. There is still no a research or civic group that could be capable to enter the policy dialogue with a significant amount of proficiency.

2.3 Key Lessons Learned

I. Imbalance in the achievement of the reform's goals.

The reform program has two strategic goals: (i) a sustained economic recovery, capital markets development, increasing private savings, and (ii) assured acceptable old-age income security for (current and) future pensioners. Taking into account the context in which the program was designed and introduced (time pressure, nascent capital markets and infrastructure, inadequacy of knowledge and cultural background) the accomplishment of the first goal is impressive. The new system generated a significant volume of new institutions and regulations that did not exist until the reform. Pension fund assets (7.5 % of GDP by the year 2003) were invested in an increasingly diversified portfolio, and managed by a developing pension fund industry (WB, Kazakhstan Pension Policy Note – Concept Note, 2003). However, preliminary analyses reveal that currently pension scheme does not meet the second, critical goal – provision of sufficient pension income for retirees. In 40 years, more than 35 percent of the retirement age population is expected to have no significant benefit from the funded system (WB, Kazakhstan Pension Policy Note – Concept Note, 2003, 2). Thus, it obvious, that a range of inadequacies in the pension system points to the need for a second phase of reform. The new Kazakhstani pension system is designed and implemented mostly from the side of *input*: regulations, infrastructure, training of government agencies staff and market operators. Whereas, it is leaving aside the *output (social)* functions - benefit adequacy, coverage, and equity – remain undeveloped. The keystone questions for any pension system are not answered in Kazakhstan yet – i) How and how much

will contributors receive when they retire? ii) How the part of population that is not enrolled (and probably will not be enrolled in the years ahead) in the funded scheme will be provided with sufficient income upon reaching retirement age?

II. Imbalance in the shape of policy outcomes might be rooted in the characteristics of the policy process.

The Government, as well as the expert groups associated with the international multilateral agencies (the World Bank and Asian Development Bank), turn out to be more concerned with the long-term economic – although not necessarily political -- sustainability of reforms. A series of analyses and assessments have been launched in order to develop a conceptual framework for the next stage of reform. Although the evidence shows that typically most analyses of pension reforms conducted by local or international experts in any part of the world concentrate on the technical aspects of the reform, leaving the decision-making aspects to others. The political and decision-making aspects of the reform are nevertheless key factors affecting the implementation of the reforms and the long-term viability of the reform agenda. From this perspective, the policy is a “product” of the process by which it was designed and elaborated, and the policy output’s characteristics are directly related to the nature of the process that produced them.

In the Kazakhstani case, some of the systematic shortcomings in the nature of the pension reform are rooted in the qualities of the process of design and deliberation. Tracing this process stage by stage and actor by actor, it can be noticed that the shape of the reform concept has been influenced by i) the composition of policy actors participating in the process and their ability to serve as proposal actors.

- Domination of financial sub-groups in the design process against a backdrop of a shortage of participation by proposal actors interested in advocating for social protection had coursed the supremacy of macroeconomic priorities and inferiority of social protection targets of the reform (App. 1).
- The governmental working group led by the finance sub-group was the only actor that was able to execute an active role in the reform program’s development and implementation. The other actors such as parliament, political parties, trade unions, interests groups, and SCOs did not demonstrate enough proficiency to participate equally in the policy dialogue. (The term proficiency includes the ability of potential policy actors i) to elaborate policy alternatives, and ii) to exert sufficient volume of pressure to push their policy ideas onto political agenda).

- In the case of Kazakhstani pension reform the evidence shows, that despite the rhetoric about the importance of good governance principles, international multilateral agencies did not pay enough attention to the openness and inclusiveness of the decision-making process. By providing technical assistance just to the governmental working group, international agencies gave it unparalleled advantage and aggravated existed imbalances in the capacity of policy actors to participate in the policy dialogue.

III. In complex policy areas (such as the case of pension reform), expertise capacity of policy actors is a key factor of their adequate participation in the policy process.

In the milieu of increasing complexity of socio-economical and political contexts, the role of knowledge needed for the development and implementation of policies escalates dramatically. Reasonably, knowledge becomes a vital factor affecting the ability of policy actors to influence the political agenda and the shape of policy outcomes. The case of Kazakhstani pension reform substantiates this. The lack of expert capacity (reliable knowledge) among partisan and institutional veto actors and interests groups evidently diminished their ability to participate in the policy dialogue.

At the same time, in a society suffering from a scarcity of knowledge (as in the Kazakhstani case), multilateral agencies that possessed expert knowledge tend to dominate in the policy dialogues. Furthermore, international organizations in this case act more like “the holders of the keys to knowledge” rather than organizations interested in local ownership and long-term sustainability of the reforms that they assist. Local ownership of reforms implies the ability of a society with its own resources to sustain policies during the repeated cycles of policy development, implementation, monitoring, and adjustment. However in the Kazakhstani case the evidence shows that (i) the domestic policy actors are not able to sustain the reform without using an external expertise, and (ii) international financial institutions do not foster local policy actors to raise their ability to sustain the reform without external support.

IV. Reform is an ongoing project that requires enduring consultations with and participation of all interested parties.

Like the reform experience in other parts of the world, the case of Kazakhstani pension reform will require ongoing steering and refinement. Several aspects of the situation are noteworthy.

- “...Social security reform is itself an ongoing project. Rather than being a one-time event, the process of reform ... is a multi-staged, politically-driven process”. (Kay, Stephen, 2001, 4).
- “Pension reform and other social sector reforms are more complicated politically than “first generation” structural adjustment reforms. ...Whereas structural adjustment reforms could be designed by insulated technicians, implemented through executive decree, and rarely target particular groups, social sector reforms directly affect the interests and eventually require the active participation of consumers and producers as well as approval by elected legislation” (James, E. & Brooks, S., 2001, 14).
- The design of the Kazakhstani pension reform was based on the experience gained in other parts of the world (particularly in Latin America). The radical change from PAYG to a fully funded system means “loosening the social contract” of the citizen’s dependence on the state system. It requires mature and well-informed citizens to make the switch to individual responsibility to save for retirement rather than spend now. Thus, the education and informing of current and potential contributors the system becomes a key social and economic concern. (Presentation: Pension Fund Reform and Implications for the Market, SSB Citi Asset Management Ltd, 2001).^{xi} Ricardo Zabala (Global Retirement Services, Citigroup), assessing the experience of pension reforms in Latin America, notes: “These reforms are very appealing: high asset accumulation, impact on the capital market, etc. However, the essence is invisible to the eyes.

The real reform is a shift:

- to the ownership of each individual account’s own assets
- to a decentralized, competitive system

It moves “power to people”. The individuals choose:

- Who manages their funds
- When to pension themselves
- What type of pension scheme.”^{xii}

However, the first phase of the reform was focused on the economic and technical parameters of the pension system, whereas the social and political dimensions of the reform process were left out of the discussion. An astonishingly low level of awareness and a high level of distrust in the population make it evident that communicating the advantages of the reforms and endorsing multiparty policy dialogue are essential to their long-term viability. This dialogue has to include contributors and market operators in order to promote broader coverage, consumers’ participation, and the population’s trust in the new system.

III. Conclusions and Policy Recommendations

In a milieu of increasing complexity, especially in the socio-economic and political contexts, knowledge becomes a vital factor affecting the ability of policy actors to influence the political agenda and the shape of policy outcomes. Like in many other transition countries the Kazakhstani pension reform was based on externally-imported knowledge which was supplied by international financial institutions. Factually, international organizations like WB and ADB served as a main resource of knowledge for the pension reform in Kazakshtan. They shared their knowledge with the Kazakhstani government providing an extensive technical and financial assistance. Thus, indigenous knowledge in this area was concentrated solely within the government agencies during the years of reform. However, even after seven years of the reform, government agencies are not able to further the reform without the use of external expertise.

At the same time, there were not built any democratic institutions or mechanisms, which could include basic democratic features like citizen debate and political parties that propose a variety of policy alternatives. Due to a severe scarcity of expert capacity (reliable knowledge) partisan and institutional veto actors and civil society groups were limited in their ability to participate in

the policy dialogue in a meaningful and influential way. The situation remains the same today. The government is launching the second phase of the reform, however there is no any partisan or institutional veto actors that posses the level of expertise that allows them to be included in this process effectively at the next stage of the reform.

The lack of involvement of domestic actors in the formulation of policy alternatives and the prominent role of international actors means that the public may perceive the policy as an external product imposed by outsiders. Furthermore, without the active participation of those most directly affected by the reform (i.e., pensioners and future pensioners), experts may fail to incorporate critical contextual features that are important to the reform's success, both politically and technically.

Finally, the reform was not communicated by the government in a way and degree that could raise population's reliance to the reform and enrollment in the new pension system. Even today, after seven years of reform, there is a lack of information on the new pension system available for the population. Not surprisingly, the population responds to this vacuum of information with turnover and an astonishingly low level of trust to the reform.

Policy Recommendations

Taking into consideration the lessons learned from the first stage of the pension reform the following policy recommendations for the next phase of the reform are proposed:

(i) Develop and maintain credible technical data, meaning data that is both reliable and accepted by the various actors, concerning the financial state of pension systems and prospects for the future. These data are the basis for discussion and debate, and can lead to informed political choices from among the available options. The formulas for sources and producers of these data might vary, but the important point is that the data concerned are available and that their credibility is beyond question. For instance, in the United Kingdom, an independent institution within the government structure (the Government Actuary) collects and analyzes such data. In the United States, the Social Security Administration (the governing body of which includes representatives of the opposition party) is responsible for financial monitoring; in Germany, the figures are produced by institutions whose reputation guarantees their validity (Federation of Pension Insurance Institutions, Federal Office of statistics, Federal Bank). *(Adapted from ILO recommendations, Geneva, 2000).*

- (ii) Build domestic expert (research and analytical) capacity relating to pension policy through the improvement of in-house research capacity of the responsible governmental agencies (MOF and MLSP); support of research projects conducted by local research groups and research institutes; expand the expert capacity of the Parliament and political parties;
- (iii) In collaboration with CSOs, elaborate and conduct a complex communication/public education strategy aimed to improve enrollment, awareness of the funded system and access of the population to information relating to pensions on permanent basis (through media, ICT, and public education campaigns).
- (iv) Expand the participation of contributors in the reform development through the support of CSOs working with workers and pension funds contributors.
- (v) Establish advisory bodies or working groups to participate, permanently or on an ad hoc basis, in the decision-making process relating to pensions. These advisory councils should be an integral part of the process of monitoring and periodic review of the system. They might include representatives of employers' organizations and trade unions, academics and qualified experts. In a complex and highly technical area such as pensions, these councils are forums for examining the system and propose compromises to assist decision-making by legislators. These bodies also might underpin the formation of a consensus on a topic of potential conflict. *(Adapted from ILO recommendations, Geneva, 2000).*
- (vi) Develop the quality of expertise through the establishment of a forum for researchers and experts in the area of pensions (workshops, conferences, web resources, publications, etc.), add to the curricular courses on economic and societal implications of pension reforms, maintain links between practitioners (executives of pension funds, National Bank, MOF, MSLP) and universities and research centers.

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Endnotes

ⁱ As Smith, J. (The Idea Brokers-Think Tanks and Rise of Policy Elite, 1993) notes there are a lot of terms that mark various types of organizations that participate in the policy process, engineer policies or policy choices: brain banks, think factories, egg-head row, etc. The term “think tank” is “now-familiar” and wide-spread throughout the international policy community at present.

ⁱⁱ For instance, the State Academy of Science working in different areas from social science to medicine and engineering, as many others Soviet organizations had its head- quarter in Moscow and divisions in every republic of the Union.

ⁱⁱⁱ The external state debt is gradually decreasing. For the last three years (from July 1, 1999 through July 1, 2002) the average number of annual growth of GNP came to 11%. Mr. Marchenko, Head of National Bank, stated that Kazakhstan with its economic growth is one of the three most rapidly developing countries in the world.

^{iv} Source: The National Bank of the Republic of Kazakhstan

^v The original Agreement was on 300 million loan, but the Government refused the 3-d 100 million disbursement

^{vi} Even some groups loosing their privileges and special retirement benefits (air controllers, pilots, and steelworkers) organized protests in July 1997. (Orenstein, 2000, 30)

^{vii} http://www.carana.com/services/pages/kaz_pension.htm

^{viii} The survey was conducted in November 2003 in Almaty. The sample is randomly formed. It includes male / female at age 20-45 respondents working in formal sector in private companies of different scale (resident and non-resident), non-profits and government agencies.

^{ix} This amount includes penalties

^x http://www.comcon-2.kz/publication/publ_000019.php

^{xi} http://www.pensionline.ru/_data/SSBCiti/page_01.htm

^{xii} http://www.pensionline.ru/_data/citibank/page_15.htm